1 Global Flows and the Politics of Circulation

There is a rising tide of discontent about the implications of globalization, a disturbance audible to anyone willing to listen. Among even the most moderate moderates in places such as China, India, Russia, Indonesia, Brazil, and southern Africa there is a growing, gnawing, and amorphous feeling of unease that there is something out there, something happening that is robbing people of a genuine semblance of control over their own destinies. They can see and feel the gyrations of their national currencies, the uncontrollable oscillations in the prices of commodities and capital, and the apparent powerlessness of their governments to influence the course of economic life—or even to understand the jet stream of circulatory forces unleashed by globalizing processes. More and more, frustration contorts the faces of those who reside outside the metropole, people who, however much they may appreciate, sometimes emulate, and frequently enjoy things Western, from technology and music to concepts of freedom and human rights, also realize that there is an unnamed force that is undermining the relations between the economy, civil society, and the state. There is something profoundly disturbing about people's escalating disenchantment with the results—or at least the aftermath—of all the introductions and returns to democracy that they have only recently won. So much is this the case that there is sometimes a nostalgia, at once genuine and insincere—not, as is sometimes mistakenly thought, for ousted and discredited authoritarian regimes, but for the certainties that they brought to everyday life. Not the least of these certainties was a foundational logic that once seemed to bind work to wealth, virtue to value, and production to place.

The contrast with the contemporary globalization of finance capital could not be more striking. Technologically driven derivatives detach the value, cost, and price of money—manifest in exchange and interest rates—from the fundamentals of the economy, particularly the state of production, the social welfare of the producers, and the political needs of citizens for self-determination, dignity, and the creation of identities. The economic power of the capital markets also threatens the right of popular dissent against those who govern the economy. Although this right, helped immeasurably by advances in communication, only reached its maturity in the twentieth century, its contemporary roots now run deep and worldwide. But the forces of circulation offer up no address or even an identifiable object. How does one know about, or demonstrate against, an unlisted, virtual, offshore corporation that operates in an unregulated electronic space using a secret proprietary trading strategy to buy and sell arcane financial instruments? The mass media can disseminate the visions and voices of dissent, almost instantaneously and worldwide (and usually at a profit); but without a recognizable object, such as that provided by the national state or a corporate headquarters, the dissent seems meaningless, impotent, or worse, some entertaining spectacle. The question that is both concealed and that matters concerns the economic powers and global reach of financial derivatives.

One way of posing the question is to collect the news headlines and to ask what the collapse of Argentina and the Enron Corporation, the demise of hedge funds such as Long Term Capital Management, and the accounting scandals at Arthur Andersen have to do with high and rising interest rates in Johannesburg, Kuala Lumpur, Istanbul, and other locations on a multipolar periphery. Are these phenomena also connected to the sudden and severe devaluation of currencies and then the ascension of interest rates, to levels of cross-currency volatility that confound any possibility of economic planning, to the concomitant escalation in global impoverishment, and to the increasingly intense and pervasive forms of indigenous unrest and regional disquiet, and the decline in the capacity of national states to provide social welfare? The short answer is that they are all tethered to the umbilical cord of circulation. They are directly defined by global streams of capital and critically configured by the buying and selling of the financial instruments called derivatives. So though financial derivatives are cloistered and complex, their character matters because they inform the course of capital that informs the course of people's lives worldwide. The singular result is that globally, government officials, the academic community, and the news media are beginning to appreciate the extraordinary power and reach of these flows of capital. To assume, as some commentators have apparently done, that derivatives cannot be influential because they exist in virtual space and therefore do not produce anything material or real is as unsound as assuming that religion must be historically inconsequential because, after all, God doesn't really exist.

Derivatives have episodically captured the world's attention because of a number of spectacular failures and crises that threaten entire economies and regions. These examples of catastrophe matter in themselves and because they identify the fault lines along which key transformations are taking place. Catastrophes also open an unexpected window into the inner clockwork of financial transactions that would otherwise be closed to public scrutiny. On this accounting, the Asian currency crisis of 1997, the collapse of firms such as Long Term Capital Management and local governments such as Orange County (California), the introduction of financial risks so systemic that they threaten a global implosion of the banking system, and the accelerated and economically disabling devaluation of currencies such as the Turkish lira and Argentine peso all confirm that electronically amplified flows of capital have become instrumental in compromising the sovereignty of national economies, and thus the extent to which politics, democratic or otherwise, can regulate circulatory capitalism. There is a growing concern that the international order is disintegrating because the global economy is on the edge of crises whose shape and symptoms are different from past and more familiar ups and downs.

Though it is the regional crises and spectacular corporate failures that periodically put derivatives on the front pages and internet banners, their social and economic effects are more pervasive and difficult to determine. They infiltrate the economies of weak and developing nations through their effects on the price of money, which in turn greatly affects its availability for housing, education, and the other social goods whose provision is necessary to advance the economy. At least as important is that financial derivatives not only are designed specifically to deal with short-term fluctuations in the price of money but also tend to exaggerate the oscillations in exchange and interest rates. For manufacturers this makes it extremely difficult to synchronize on the one hand the time horizon of commodity production, which to be successful must be measured in years, and on the other hand short-term fluctuations in the cost of the money necessary to purchase their plant and equipment and guarantee them a profit on the goods they export. The impact of the fluctuations is hitting developing nations particularly hard, causing business failures that have little to do with the demand for the product or the efficiency of the producer. The result is often increasing poverty for the already poor and further weakening of already weak states. The most salient feature of our times is that contrary to the buoyant optimism of the early postwar period (1945–73), most "developing" nations are regressing economically if not also politically.

Especially because of its wide-ranging impact on the developing world, the financial turbulence of the past decades—exemplified by one currency and debt crisis after another—has convinced most serious observers (though certainly not all) to abandon the assumption that liberalization of the capitalist financial markets was destined to bring about a new regime of unparalleled global economic benefits. Also left by the wayside has been the overly optimistic imaginary that liberated economies of liberated peoples would bury their pasts and launch a progressive process of planetary integration. In its place is a troubling realization: unregulated flows of capital are engendering a turbulence that is undermining the lives of even peoples who inhabit territories incomparably distant and different from the landscape of metropolitan capital. Whether anyone understands what is happening or not, irrespective of political consent, arcane financial markets and instruments—encoded in the most mathematical of terms—appear to be determining the fate of those who reside in what the metropolitan literature, such as that issued by the International Monetary Fund (IMF), identifies as economically emerging and transitional nations—the concept of the "Third World" apparently rendered senseless by the demise of the Second and dissolution of the First into the image of the planetary market. It is becoming increasingly clear that since the early 1970s, the cultures of circulation, especially that defined by speculative capital and the risk-based derivative, have unceremoniously begun to displace production as the leading edge of capitalism. This transformation accelerated through the 1980s and then exploded in the 1990s into the new millennium. The bankruptcies and currency crises that punctuate the transformation destroy the perception that it is possible to attend to politics independent of the economy, thereby undermining the celebration surrounding the resuscitation of democracy and civil society after the cold war in the post-colonial and once communist universe.

So a continuing refrain in both academic and popular works on globalization is that transnational capital has become instrumental in defining every aspect of the present economic environment, from the climate for interest and exchange rates to the topography of global redistributions of labor. These works see these streams of capital as mobile, muscular, and speculative, moving in a self-created and self-creating terrain lying beyond the perimeter and thus the regulatory power of the state. In the metropole as much as the post-colony, commentators have become progressively aware and worried that these global flows of finance capital will, in the words of the historian Eric Hobsbawm, gradually reduce "older units, such as 'national economies', defined by the politics of territorial states" to mere "complications of transnational activities" (1994, 573). Arjun Appadurai (2000) contends that circulation's most "striking feature is the *runaway* quality of global finance which appears to be remarkably independent of traditional constraints of information transfer, national regulation, industrial productivity or 'real' wealth" (3; our emphasis). Saskia Sassen observes that such flows are leading to a "denationalization of domains once understood and/or constructed as national" (2000). Eric Peterson (1995) warns that continuation of contemporary trends will lead to the inevitable "hegemony of global markets" and the power of circulatory capital to determine the conditions of production; Jean and John Comaroff (2000) underline the degree to which "the explosion of new markets and financial instruments" gives the financial order an autonomy "from 'real production' unmatched in the annals of political economy" (300–301), while the geographer David Harvey (1989) claims that emerging circulatory forms are fracturing the history of capital itself.

In concert with this concern for circulation and its capacity to efface the forces of regulation, there is a growing emphasis on the social character of markets, particularly the ways in which the creation and distribution of wealth have to do with more than technological advancement and unfettered competition. There is a growing realization that modern markets rely on governance and cultural institutions that they are also partly responsible for creating. Fligstein (2001) notes that the social structures, social relations, and institutions underlying the market are the works in progress of a long-term historical project, and that in many cases they represent the fruit of sometime desperate experimentations in the face of market turmoil and economic depressions (4). In a parallel vein, Perez (2002) and Brenner (1998) attempt to understand how the social and political economy of globalizing capital absorbs, assimilates, and deploys great upsurges in wealth generated by technological advancements and the over-accumulation of capital that so often follows them. They argue that the social and institutional framework, including governance, developed to deal with the previous set of technologies (such as those of Fordist production) are invariably inadequate to enframe the new technologies, in this case the globalizing forms of financial circulation. There is a mismatch both across geoeconomic spaces, as exemplified by the relationship between the metropolitan nations and those of the periphery, and between the techno-economic and socio-institutional spheres, such that the economic system at least temporarily decouples finance capital from the organization of production. In that respect, our argument is that the globalizing process now in motion is engendering a decoupling on a scale more encompassing, more powerful, and also perhaps more permanent than anything that has gone before.

From a historical perspective, the capitalist circulation of money and commodities that began in earnest in the nineteenth century appears to be taking a new direction. Though this expansion was long in the making, dating at least as far back as the sixteenth-century Low Countries (Schama 1988), and its eventual trajectory was far from ordained, its dominant and world-dominating form only fully emerged at the start of the nineteenth century. Its developmental logic animated a process of perpetual expansion, punctuated by rounds of amplified globalization, with the result that capitalism engineered an increasingly interdependent worldwide political economy based in production and founded on a single, self-universalizing division of labor. While financial and mercantilist capital were present from the outset, and importantly so, this form of capitalism valued production over circulation, labor over risk, investment capital over its more speculative cousin, and the territorialized state over both more local forms of sociopolitical organization (especially world cities) and supranational forms. In what is probably a far too mechanistic metaphor, the swing of the economic pendulum that began with mercantile capital and then shifted toward production-centered, state-based capitalism is currently in the process of returning, albeit in a profoundly different way, to a more circulation-centered paradigm. This circulatory regime is less strongly tied to state and territory, more culturally diffusive, violent in ways that are both more abstract and more tangible, and above all, founded on a reorganization of the interrelationship between production and circulation. In this respect, the current round of

globalization is so significant because it is transforming the blueprint for restructuring a global political economy that has been dominant for two centuries. The touchstone and animating force of the contemporary global transformations is the reemergence of circulation as the cutting edge of capitalism.

Circulation is the cutting edge of capitalism in a variety of senses. First, circulation is rapidly becoming the principal means of generating profit, absorbing the capital formerly direct toward production. The contemporary trajectory is that the surplus value attached to commodity production is declining while that attached to the circulation of knowledge, money, entertainment, and technology is increasing. Indeed, there is only one interpretation of a host of recent economic statistics (such as statistics of equity capitalization): capital is flowing out of and away from things tied to production and into those related to circulation. Second, the global expansion and power of capitalism are now bound up with its capacity to organize cultures of circulation. What is a new, consistent, and determining feature of these circulatory systems is the geopolitical redirection of flows away from the periphery of capitalism and toward its metropolitan core. Few things exemplify this more than the flow of capital itself. Third, circulation is the cutting edge of capitalism because the driving impulse behind technological innovation is the shift from production to circulation. The transmission of voice, image, data, and money, globally, accurately, and instantaneously, has become the primary mission, the business plan, of a large and increasing number of companies worldwide. Fourth, the cultures of circulation now in ascendance are the principal factors in reorganizing the functions of the state. More generally, they are leading to the reconfiguration of superimposed spatial scales, including and especially the emergence of "global cities"—new urban imaginaries that are emerging as sites or platforms for these globalizing circulatory systems. And finally, these circulation systems are leading to a transformation in the habitus of culture itself. Culture is moving away from singularity and territorial attachment, and toward "glocalization" and plurality, meaning that each site or locality internalizes other sites as a characteristic of its position and repositioning in the global marketplace. These transformations are concurrent and conjunctive, but not only are they not coordinated, the absence of coordination is one of their most distinctive features, leading to a present that is being defined by multiple and overlapping globalizing processes.

Not surprisingly, there is escalating concern that these planetary circulations of capital will only exacerbate and further structurally entrench the already deep disparities between the economic fortunes of rich and poor nations, helping to worsen a global economy in which so many countries are in an ever-deepening crisis. George Soros, the financier who is both a participant in and a self-reflective observer of the economy, argues from experience that understanding the architecture and appreciating the power of the capital markets is crucial to understanding the present, both the economic politics of the metropole as embodied in the policies of the IMF and the political economy of despair (Soros 2002). The Nobel laureate Joseph Stiglitz seconds Soros's argument (Stiglitz 2002), criticizing the economics of the IMF and noting along the way the complete absence of evidence that capital market liberalization spurs economic growth or helps to consolidate democracy.

Outside the metropole, in places like the southern cone of Africa, the Islamic Mediterranean, much of south central Asia (especially Pakistan and Bangladesh), and increasingly more of a once more prosperous Latin America (especially Argentina, Bolivia, Venezuela, and Colombia), a deepening

economic crisis is coupled with a rapid deterioration in the ability of already enfeebled states to control their borders, quell violence and terrorism, deal with the AIDS pandemic, regulate markets, and provide answers to a generation of dispossessed youths who insistently ask why the world appears to resemble a slot-machine tilted against them. Why have so many nation-states continued to lose ground economically over the past quarter-century, and what is causing even those countries that not long ago seemed on the threshold of success (Argentina, Ghana, Egypt) to fall back? At least part of the answer has to do with the ascension and power of unregulated circulatory capital. Indeed, rapidly accumulating evidence more than suggests something transformative about this present, a quality that has made history again come alive even as the character of capital and the relationship between polity and economy resemble nothing in their pasts. The result is widespread agreement that these global streams of capital are transforming the economic and political landscape.

But acknowledging the presence and power of finance capital as a defining feature of the contemporary landscape only underscores those concerns that have garnered far less analytical attention. What are commentators referring to when they talk about global flows of finance capital, transnational capital markets, or more specifically the power of financial derivatives? What are the images and institutions, the concepts and contradictions, the agents and agendas that organize these global flows of capital in a world-space that is virtual, transversal, and asymmetric? There is clearly an argument to be made that these features, by decisively transforming the space of events, shape the way in which state politics and governance can manage or domesticate the global money markets. This space is a true world-space because it transcends the distances and differences that once mattered, meaning that it can just as easily map life in the hinterlands of Mauritania and Laos as in the urban capitals of the United States or the European Union. This compression does not reflect the dissolution of space into promiscuous global flows, but rather its redefinition through the creation of new channels of connectivity. These lines in the world-space are virtual in that the capital accounts have no fixed physical address or home, existing only in an electronic idiom. This is critical because the oxygen of collective democratic governance is contestation and consensus between addressable agents and institutions interacting in a public political sphere. Without an addressee, the driving democratic ideals of the public good and accountability have little purchase, making it hard to insure that these processes of financial circulation do not degenerate into processes of beggaring one's neighbors, especially those developing countries which, having fragile economies and weak banking systems, are unable to defend themselves.

This world-space is also transversal in that the circulations of capital breach national boundaries as though they did not exist, money and credit flowing from one nation to another in unprecedented amounts. Certainly a chief characteristic of the recent period is that while the transnational trade of commodities has continued to inch up gradually, the transnational flow of capital has skyrocketed. And more than being simply a matter of economy, the circulation of capital translates into power. The space is asymmetric in that the flows continually cede power to institutions (such as money center banks) and individuals who define themselves from a Euroamerican perspective—a perspective that simply assumes the rest of the world to be a financial appendage to the West. These qualities suggest that the question of what global circulations of capital are flows into the question of how the character and culture of these circulations are implicated in the evolution of politics, globally. How, for example, does the emergence of markets driven by speculative and mobile capital influence the stability of governments? One possibility is that localized politics, including the national politics of former colonies, will no longer be a critical site for the governance of the economic life of their citizen-subjects. Early signs also point to the possibility that these citizens will increasingly experience the state's role in enhancing social welfare through its absence in the face of global financial markets that dismiss social and moral concerns.

Metropolitan Responses

In terms of a theory of economy, there is an ongoing debate over the character of contemporary capital, focusing on how the structure of capital changes when it goes global. Derivatives and their culture of circulation go to the core of the controversy: for what precisely is it to risk, invest, or otherwise deploy free (not production-directed) capital in the production and circulation of capital itself—and to do so in ways that appear to be socially and historically specific to contemporary capitalism? To build on Schumpeter's insight that the very success of a regime of capitalism creates the conditions for its own disruption, what would revolutionize the modern regime founded on an industrial, production-centered, model of capitalism? What would transform a regime of capitalism whose reality had become bound up with the sovereignty of the state? There is a rather compelling argument, explicitly endorsed here, that locates in the emerging cultures and sociostructures of circulation a critical source of the disruption, and a seismic force contributing to it (Lee and LiPuma 2002). Indeed, the implication of our central argument is that speculative capital, circulated through risk-driven derivatives, is currently restructuring the relationship between production and circulation by accelerating and expanding the spatial reach of the reproduction of capital. In looking at the rise of circulation, we are witnessing the rise of a transformed form or new phase of capitalism in which production is (and remains) a crucial, indispensable, but now encompassed moment of a globalizing system that is striving toward a different type of totality. This newly evolving totality appears more cosmopolitan than national in nature, though the ultimate response of nation-states to this challenge is still a work in progress.

An initial reading of the growing number of commentaries on the global politics of the liberalization of capital markets underscores that they generally fall into three camps. For neoliberals, the trope of the free market is the centerpiece in the celebration of the open, universal, and triumphant circulation of capitalism's essence—money capital itself in all its numerous forms. This ideology, which influences the way its adherents investigate international movements of capital, pays fleeting attention to their social implications and even less to their sociostructural foundations. Their main argument is that empowered capital markets are the touchstone of capitalism, that nowhere is the disparity between the metropole and the postcolony greater than in the development of capital markets, that this disparity is the dominant cause of the problems facing former colonies, and that accordingly they should liberalize their capital markets as quickly as possible. The neoliberal premise is that well-functioning markets eventually and inevitably produce better social results than any government social engineering, "better" being defined as tending to maximize individual preferences and prerogatives. According to neoliberal economics, a key solution to the social problems facing former colonies is the opening of their markets to Euroamerican global capital flows. From the distance and difference of the postcolony, this viewpoint could hardly be more neocolonial or ethnocentric, for it presupposes, inaccurately, that former colonies have the infrastructure, resources, and political stability to compete in the capital markets on an equal footing.

For Marxists and critical theorists, capital flows are the trope that is invoked to characterize a skewed world where the epicenter of wealth generation seems to have seismically shifted from productive labor and the processes of turning raw materials into useful commodities to cultures of circulation built up, rather ominously, around intricate, omnivorous networks of technologically enabled financial instrumentation. The fear is that this species of capital, freed of political constraints imposed by state regulation, will redesign the world in its own distorted and alienated image, thus exaggerating already horrific disparities in wealth and health between the metropole and the lands that lie mostly to the south. Those on the left see in the specter of these flows of speculative capital a new means of advancing the western economic domination of others, as transnational nuclei of concentrated financial political power crystallize in spaces so virtual and electronic that their only addresses are encrypted web pages. This etherealness complicates the analysis for those who study domination: for with the rise of derivatives not only do the underlying social relations of domination appear to be abstract, but the surface relations now have their own form of abstraction.

The rise of circulatory capitalism appears to have thrown orthodox Marxists and critical theorists into a tailspin, because each passing day's news seems to emphasize that the traditional analytical tools of their trade—concepts like class relations, private property, material production, and also surplus value—may no longer be contemporaneous with themselves. The culture of financial circulation does not appear to concern or pivot on these concepts in any meaningful way, and recourse to them is distinctly unproductive. One way of dealing with this concern is to argue, with some traditional Marxists, that these new financial and speculative transactions signify nothing more than a new phase in exactly the same labor- and production-centered capitalism that Marx described. But this view only sidesteps rather than confronts the growing autonomy and authority of financial circulation and the sociostructures that make it possible. Whatever the theoretical posture or position, any attempt to theorize the present needs to explain why the market for financial derivatives mushroomed from virtually nothing in 1973 to become the world's largest market in less time than it took Marx to publish volume one of *Capital*.

Lying between neoliberal and Marxist views is a mushy middle ground manned by neo-Keynesians, who contend that capital markets operate efficiently only when the political process regulates them effectively. The understanding—endorsed and practiced by the U.S. Federal Reserve—is that state regulation should be sufficiently light and deft that it produces market efficiencies without producing sociological distortions (read: redistribution of wealth). The neo-Keynesians tend to share several key assumptions with the neoliberals, importantly that the economy is the hub of society and that well-tuned markets are effective means of producing and distributing social goods (such as education). When, as is increasingly the case, the neo-Keynesian perspective surfaces in reports written for agencies concerned with advancing economic development, it focuses less on the character of global flows and the structural foundations of circulation than on coming up with institutional solutions to stop the economic bleeding in the postcolonial world. In this brand of economics, the emerging global financial markets are like great rivers that the world must harness to capture their true benefits.

None of the tropes are, of course, entirely wrong: the financial markets for capital do epitomize modern capitalism, they certainly do intensify existing forms of domination and lead to new forms, and some form of regulation is surely a necessary counterweight to the threat of state destabilizations and systemic risk. Nonetheless, if the notion of global circulations of financial capital is to have real value analytically, it is necessary to theorize and thematize their instrumentation, the social ontologies that underwrite their production and circulation, and the visibility of financial instruments in the public political sphere. The magnified scale of these transnational financial flows in concert with the ever-increasing abstraction of the relations mediating them (in terms of both their central concepts and their quantification) foregrounds the question of what is at stake, politically and economically, in the ascension of a system of cosmopolitan circulation. As things currently stand, there appear to be trillions of dollars of empirical evidence that do not fit any established analytical paradigms.

To put the issue politically, what kinds of politics and political culture are possible and permissible when capitalism shifts out of alignment with its surface-level segmentations, most notably the democratically governed nation-state? What kinds of domestic disturbances and instabilities start to appear when transnational agents and markets begin to exert control over economies once managed in and through the national state? Each day brings fresh evidence that transnational markets and institutions have begun to impose their will on nationally imagined economic spaces and the communities of economic interests that they once followed. Indeed, one can easily read the history of late-twentieth-century capitalism as a sustained attempt by financial capital to emancipate itself from the political system and its regime of regulation. It no longer seems realistic to think that we can adequately grasp the economy and culture of a globalizing world-space, the international reorganization of industrial production and labor, the rescaling of functions once within the office of the state, the faces of disorientation and discontent with the ascending global order, or the new forms of symbiosis and domination that inscribe the metropole in the realities of Others if we do not come to terms with the rise of circulatory capital.

The Genesis of a Culture of Financial Circulation

Since the early 1970s there has evolved a global culture of financial circulation. This culture is being set in motion by the forms, particularly the many and varied types of derivatives, that circulate through it, and defined by a financial community willing to speculate on the risks associated with globalization—or, more precisely, the forms of connectivity brought about by globalization. Accordingly, however scholarly publications, trade journals, or the mass media sometimes portray it, the explosive rise of speculative capital, nowhere more evident than in the presence of the risk-bearing derivative, is not a historically short-lived economic aberration. Rather, the embodiment of speculative capital in the risk-driven derivative seems to reflect, amplify, and be determined by the ongoing transformation in the foundational sociostructures of a globalizing economy. Present-day financial derivatives might better be conceptualized as a primary stage in a new economic trajectory whose ultimate direction and implications will depend on how the global community, particularly the metropolitan nation-states, responds to their effects. So much more than simply economic, this transformation turns on the evolving relationship between the rising import of circulation and the development of the financial institutions and instruments that are currently reshaping the global circulations of capital.[1]

This observation gives rise to a structural and historical argument that draws upon but also extends the insights of an ensemble of globalization analysts, from fields as diverse as accounting, political economy, postcolonial anthropology, and urban geography. The basic or founding argument is that the internal dynamic of capitalism compels it to perpetually and compulsively drive toward higher and more globally encompassing levels of production. This directional dynamic has engendered such progressively ascending levels of complexity that connectivity itself has become the significant sociostructuring value, leading to the emergence of circulation as a relatively autonomous realm, now endowed with its own social institutions, interpretative culture, and socially mediating forms.[2] Though it went mostly unnoticed at the time, beginning in the early 1970s Euroamerican capitalism was compelled to reorganize itself in the face of growing competition from South Asia (the "Asian tigers"). Industrial manufacturing of all types needed to discover newer ways to incorporate more marginal regions (particularly South Asia but also Latin America) to shore up contradictions created by its compulsion to overproduce commodities and over-accumulate capital. Within the metropole, finance capital flowed out of the old economy and into technology, eventually so indiscriminately that it fomented a technology bubble that burst just as the millennium closed.

Beyond the metropole a global restructuring began to unfold, in which Euroamerican firms began to outsource an increasing share of the production of industrial materials and component manufacturing to the more advanced regions of the more advanced developing nations, such as Thailand, India, and Brazil. The hinterlands of the advanced periphery (parts of India and Mexico) as well as whole nations such as Pakistan, Guatemala, and Mauritania became outsourcing centers for raw materials and manual labor production. Photographs and reports of ecologically insensitive logging operations and dilapidated, airless factories cramped with young women sewing apparel for mass metropolitan markets seem to exemplify that reality. Still other countries, particularly those in sub-Saharan Africa and remote parts of Asia (such as Cambodia), are participating in this restructuring in only the most marginal and episodic sense, isolated from all but the most exploitative aspects of the global economy. No nation has so come to embody and exemplify all three dimensions of outsourced production, and on such a profoundly grand scale, as China, with a vast, determined, and rapidly growing manufacturing industrial sector, huge urban encampments of sweatshops, and far western regions that are economically isolated from changes happening elsewhere. China and to a lesser extent India appear to be the complex microcosms and chief beneficiaries of this restructuring of production. Moreover, from a financial standpoint, the over-accumulation of capital throughout the metropole inflicted a serious blow to the banking sector in particular and financial institutions generally because it could not but depress margins on forms of traditional lending—that is, lending to the declining industrial sector. In simple terms, the demand for capital has grown slowly while the supply has sprinted ahead, thus motivating the financial sector to seek out newer sources and streams of profit, such as teaming up with international agencies (such as the World Bank) to underwrite outsourcing operations and, not least, creating a derivatives market.

The confrontation between a metropole redirecting capital and nation-states wedded to Fordist regimes of production created problems of connectivity immune to more traditional solutions. The proliferation and institutionalization of contractual outsourcing (an agreement to supply a product over a defined period) increased existing risks, such as counterparty and interest rate risks, even as it spawned new ones, such as currency and sociopolitical risks. What these newer risks had in common was that they could not be handled or offset by the conventional forms of insurance (such as hedging). For many corporations doing business globally, the problematic and uncontrollable consequence of outsourcing was that exogenous events beyond their control or corporate intelligence, such as a steep shift in cross-currency rates due to the election of a socialist-leaning president, could seriously harm or destroy the profitability of an enterprise. Connectivity thus produced a demand for ways to deal with the effects of outsourcing.

To help their corporate clients hedge against these risks, financial institutions developed derivatives and their markets. Because of their experience in similar markets, they recognized that for derivatives to function effectively, their markets needed to be liquid, the principals able to purchase and sell securities as their needs demanded. The need for liquidity provided a new avenue and opportunity for absorbing the over-accumulation of capital in the metropole, giving birth to institutions, such as hedge funds and new banking divisions, that specialized in managing what "the street" would call "speculative capital" (Saber 1999). Furthermore, as these pools of risk capital grow, as financial technicians craft new derivative contracts to expand the reach and maximize the leverage of speculative capital, and as new technologies permit instantaneous, around-the-clock trading worldwide, the power of such circulatory capital grows exponentially. The metropole's need to deal with industrial overproduction motivated producers to develop newer and less expensive sites of production overseas, which in turn led to what at first glance appeared to be no more than a straightforward extension of existing commodities markets but quickly took on a life and evolutionary trajectory of its own because of its unprecedented capacity to absorb the capital over-accumulation. Production's most important product is rapidly becoming the production of connectivity itself—that is, the logistics, communication networks, global financial instruments, and technologies used to assist and amplify

development of derivatives

connectivity. Programmable microchips, wireless communications systems, high-speed data transmission, and real-time inventory assessment are only a few of these technologies.

The institution and implications of these financial instruments epitomize the way in which the circulatory process is redefining the production and possibilities of value itself. This process connects and separates localities and, more critically, compels other nations to globalize themselves by implementing what amounts to structural adjustment policies (especially exchange rate liberalization); such policies allow these nations to compete globally for capital and outsourcing contracts but also render them vulnerable to the interests of speculative capital. The new form of connectivity is both an instrument and an example of the reproduction of global economic asymmetries on terms so new, so materially different from anything that has gone before, that peoples, states, and movements the world over are searching for the sites of power and for the identity of those who exercise control. While it is unclear whether national states can create a supranational agency to rein in circulation, it is clear that any action will entail a newer and more cosmopolitan understanding. So whatever action the world may take, the first task must be to develop a socially critical conversation on what we are dealing with.

Derivatives and Their Implications: A First Look

Financial derivatives do not operate in a vacuum, but as one cog of a larger culture of financial circulation that has many moving parts. The story line shaping our analysis has three principal linked elements. They are introduced here in some detail as a way of enframing the discussion of why this circulatory structure of finance has become so significant that it is now instrumental in determining the wealth of nations. The first of these elements is called speculative capital. This is a huge, not production-directed, and continually expanding pool of mobile, nomadic, and opportunistic capital that resides in the hands of private hedge funds, leading investment banks (J.P. Morgan Chase), and the financial divisions of major corporations (GE Capital). These funds, banks, and firms are located in the cultural and mental if not always geopolitical landscapes of Europe and the United States. The second element is the financial derivative products. The institutions participate in global markets in many ways, and use of these products is the most significant. Such derivatives are the main instrument that speculative capital uses in the global marketplace. Financial derivatives are essentially wagers on changes in the cost of money (that is, interest rates) or the relationship among national currencies. From the viewpoint of the market, they appear necessary and natural because they are motivated by the risks associated with the connectivities lying at the heart of globalization. The final element is a newly minted and determinative conception of risk, new because risk has here become abstracted from the relatively concrete universe of uncertainties, and determinative because it constitutes the basis for the production and pricing of derivatives. The construction and combination of these elements are the molecular structure of what we call the culture of financial circulation.

Although none of the three elements are themselves new, their combination, redefinition, institutionalization, and technological amplification are producing a fundamental shift in how the world economy works, characterized by the growing power and autonomy of the sphere of circulation. What makes this ascension of circulation more than economically significant is that it seems to be engendering what amounts to a planetary shift in power away from national state political systems, or perhaps political systems of any kind, and toward the global financial markets.

Financial derivatives matter for two reasons. First, they are "the functional form that speculative capital assumes in the marketplace" (Saber 1999, 128); and second, they are the structural form that circulates and globalizes risk. Speculative capital takes this form because derivatives unify in a single instrument the objectification of various types of risk, the almost extraordinary leveraging of those risks, and the possibility of being used for both hedging and speculation. The process of objectification is central because derivatives are not concrete but socially imaginary objects that use the classifying powers of language to tie together sets of distinct and separate relations. So objectification denotes the process by which the contemporary financial community, operating much like an orchestra without a conductor, concretizes a complex amalgamation of social, economic, and political relations into a single recognizable object (like a derivatives contract) that then appears to be independent of these social relations because they are not part of the manifest appearance of the object or instrument. The derivative appears to be simply a contract that permits buyers and sellers to speculate or hedge. As the investigation unfolds, it will become clear that this appearance conceals a more complex phenomenon.

Derivatives are also an optimal vehicle for speculative capital because they allow for extraordinary leverage, which confers two potential advantages. The first advantage is that a given amount of capital can control a significantly larger amount of an underlying asset. An investment bank can, for example, collateralize its control over ten billion Mexican pesos by putting up only a fraction of that amount, meaning that its wagers can have enormous economic reverberations. The leveraging of risk thus refers to ways in which the assumption of risk through the derivative is subject to a multiplier effect because the amount invested is only some small percentage (as little as 1 percent) of the contract's value. By using derivatives speculative capital can effectively chase the profits gained from assuming the risks associated with global connectivity.

The second key advantage is that leverage can permit speculative capital to make bets so large (as on a specific currency) that it influences and sometimes determines the outcome of the bet. Although speculative capital's use of risk-bearing derivatives has antecedents in the long history of international finance, it is also an economic technology whose reach and power are greater than anything that has come before—captured in the statement by John K. Galbraith that "no economic development of our time is so threatening as to its effect and so little understood as the great and unpredicted movements of financial capital between countries" (2000). Galbraith is alluding to the reality that the ascension of circulatory capital generates a double movement in which new forms of financial progress and freedom, as defined by the West, are inseparable from the rise of a new form of domination and disenfranchisement, generally and most visibly visited on others.

To appreciate why this is so it is necessary to understand what happens when speculative capital, riding the back of and geometrically exaggerating the effects of corporate hedging strategies, is used in conjunction with the power of leverage to precipitously devalue the currency of countries such as Turkey, South Africa, Indonesia, and Argentina, to cite some recent examples. Almost overnight the cost of repaying debt denominated in dollars or European Currency Units (ECUS) spirals upward, as does the cost of oil, technology, and new capital, igniting inflation, draining the nation's exchange reserves, and a short while later causing numerous businesses to fail, unemployment to escalate, and the standard of living to fall. This is not an imaginary or overwritten scenario. It is simply the logical outcome of the Western logic of a globalizing culture of circulation, which maintains that in a competitive capitalist world there will be those who triumph and those who suffer.[3] In the middle months of 1997, the world currency markets depressed the Thai baht by 30 percent, with the result that banks stopped lending, interest rates became exorbitant for those who could borrow while bankruptcy consumed those who could not, unemployment climbed to its highest level in twenty years, and workers took to the streets of Bangkok to protest their plight, leading to an IMF agenda that forced Thailand to replace its constitution with one more adapted to global flows of transnational capital. The reformed constitution dramatically deregulated the national capital markets, opening them to foreign speculation. The economic debacle in Thailand—one of the dominos in what metropolitan commentators have repeatedly referred to as the Asian debt crisis but which is much more accurately described as the Asian U.S. dollar shortage—and the more recent currency crises in Turkey, Argentina, and Brazil have confirmed what many already suspected: that circulatory capital had already gone a substantial way toward subjugating production and manufacturing capital to its dynamic.

There seems to be no way to characterize the real effects of speculative capital on Latin America, Africa, and other points on the economic periphery other than as violence. There is, indeed, mounting evidence that speculative capital is producing what people on this periphery experience as *abstract symbolic violence*. The violence is symbolic in the sense that it is not accomplished physically by means of military force or colonialism, though it may, of course, engender the conditions (such as impoverishment) that precipitate violent crime and warfare. The violence is also abstract in the sense that it never appears directly; rather it mediates and stands behind local realities—such as interest rates, food costs, and the price of petroleum. In everyday life, people experience the effects of the market only through the products they can no longer afford, interest rates that make buying a home or improving a business impossible, the retrenchment of social welfare projects (such as electrification for rural settlements), and a decline in the standard of living. The violence is also more fundamentally abstract because it arises from abstract forms that are themselves constitutive of globalization relations, as we now know them. It is expressed as a conflict between local communities and a global system whose dynamic and trajectory lie beyond the reach of local insight and control. The appearance of a globalizing culture of financial circulation standing in opposition to the local communities that make up the globe is an expression of the underlying abstract basis of this modern form of violence. The violence is thus abstract in terms of both its opacity at the level of everyday existence and the oppositional character of the sociostructural relationship between the global and the local.

The double abstraction of violence begins to articulate new forms of harm, terrorism, and absolutism; by detaching violence from sovereignty, it creates a new relation between the objective structures of the production of violence and its subjective internalization in the form of fear and anger. Violence is no longer linked in any simple way to the desire of states to monopolize it as one means of controlling the space of the nation and, correlatively, developing a narrative of mastery over that space. Rather, violence is becoming economically systemic in the sense that it is external to politics, law, or any claims shaped by the state or its citizen-subjects. It also differs from the economically motivated violence of the past, such as colonialism, in that it does not involve the inscription of new spatial relations, the subversion of local indige-

violence detached from sovereignty

nous property arrangements, forcible resource extraction, or the conscription of labor. Space is no longer the raw material of international violence, in that the violence of finance is so far-removed and remote from both the spaces of everyday life and the sovereignty of the states that it profoundly affects.

All this suggests that abstract violence is intrinsic to the financial circulatory system, appearing in the covenants of World Bank loans and, more often, in the structural adjustment policies of the IMF. Its effects are violent because it damages and endangers the welfare and political freedoms of those in its path, and does so without ever revealing itself. Lacking any sensible qualities, the harm brought about by, for example, exchange rate volatility seems to materialize out of thin air. The economic power that this violence confers on speculative capital in no way depends on popular awareness, let alone political consent; rather, the power is so abstracted and transverse that those in its path mostly intuit the existence of the derivatives market and speculative capital from the effects that it produces on their lives and livelihood. The violence that this power produces is not the result of an immediate, direct, or concretely social relationship, like that found on the Fordist factory floor. This violence acts covertly on the primary conditions of national economic existence, eroding citizens' faith in the worth of their currency, the continuity of the economy, and the ability of those elected to provide for their social welfare. So it is surprising only to those cloistered within the metropole that throughout much of Africa, South Asia, the Middle East, and other southward locations there is a deepening anxiety and anger stemming from the power of the emerging derivatives markets to determine the quality of people's lives, although these markets are unregulated, veiled, and beyond their political control.

Understanding the culture and sociostructures of financial circulation must begin self-reflexively; for the power of the financial system depends greatly on its power to produce the categories through which it is grasped. Most of the academic and all of the professional trading community use these categories. These categories, including those of risk, volatility, capital, and the derivative, define the objects and circumscribe the limits of insight by seeing financial circulation as a play of decontextualized and naturally occurring market surface forms. This cannot but lead to a naturalization of its conventions, an essentialization of its socially created ontology, and an externalization of its manifest social implications. The social and political power of financial derivatives are grounded in great measure on their appearing not to be social or political at all, but to simply express the mechanisms and profit goals of the market. The basic models for pricing options have a history that stretches back to the foundations of theoretical physics: investigations of Brownian movement, later applied to market practices. One consequence of this use of mathematical physics is that a decisive line is drawn between the conceptual foundations and social institutions presupposed by the market and the objects of economic analysis. Analyzing the market for the global flows of finance and speculative capital thus entails deconstructing the analytical work already done under the names of business economics, finance, and accounting. The grounding of the analysis is also complicated by the reality that derivative products and markets continually mutate to overcome whatever political defenses governments throw up in their path. In other words, the object of analysis is both moving and often socially misunderstood.

To get a better appreciation of how financial derivatives work and what is at stake politically, we provide a social and critical account of circulation. By analyzing the role of financial derivatives in the imbricated networks of global circulation that channel the movements of capital, we seek to illuminate the socio-structural character of financial circulation, deconstructing the ways in which derivatives encapsulate, quantify, and speculate on conceptualizations of risk created in the very processes of circulation. The analysis will show that derivatives represent a new means of objectifying economic reality because they seek to capture and mediate the entire ensemble of relations that create the social through the concept of quantifiable abstract risk. They are relations about the relations of capital—a metalevel that steers the transnational circulation of finance capital. The metalevel arises from the creation of a doubly abstract notion of risk—that is, one that is abstract not only in the conventional sense of being removed from immediate ordinary reality (such as the risk of nuclear war or air pollution) but in the historically specific sense of objectifying different, globally distant, and incommensurable social relations as a single priced thing. Not only monetarily large—any transaction less than ten million dollars is referred to as a "skinny" trade—but enlarged through leverage and hidden from ordinary oversight, the derivatives financial markets exert extraordinary influence over the value of money and the cross-temporal relationships between economic and political action. This ascendant culture of financial circulation, the evidence suggests, coincides with the emergence of cross-border relations that compel states to redefine the terms of economic governance and is also a critical determinant of that redefinition.

Through these concerns, we address a key dimension of the transforming and transformative articulation of economy and polity in contemporary capitalism. We take it as axiomatic that we must organize our methods to illuminate the relation between culture and economy, thus refusing to separate, as has been the practice, the operational and mathematical techniques of the derivatives markets from their social implications. The reason we refuse to disconnect social reality from economic technique is, as will become evident, that ~~the mathematical processes are intrinsic to~~ forms of objectification, concealment, and power through which these new financial tools are determined. The term "cultures of financial circulation" is intended to convey that the imbrication of the sociocultural and economic is so intrinsic to the reality at hand that any separation is a failure of theory and method. And of insight as well, for accounts that fixate on either side of the divide between socioculture and economy cannot but reify and misrecognize their object of study. We also take it as axiomatic that the analysis cannot reduce the relation between the culture of financial circulation and the cultures of governance to an elementary confrontation between market and states. Quite the reverse. Our understanding is that the sphere of circulation draws upon and reconfigures the underlying sociostructural relationships between capitalisms and cultures, in particular the socially structuring ontology of Euroamerican capitalism with respect to the political culture of governance.

In the succeeding chapters, we provide a sociocultural account of the fast-evolving political and economic contexts surrounding the development of financial derivatives, highlighting the ascension and centrality of speculative capital and the notion of abstract risk. The account then locates derivatives by specifying their metric and temporal structures, especially with respect to a production-oriented, labor-based conception of the economy; and finally we suggest some of the hegemonic implications of this culture of circulation for the ongoing construction of democratic governance across the

mathematical process

postcolonial divide. Indeed, it is becoming clear that the construction of connectivity is grounded in, and presupposes, a set of scalar asymmetries. We thereby raise a question we do not begin to answer, a question raised by those such as Jürgen Habermas (1996) and John Rawls (1993) who wonder and worry whether contemporary capitalism will coercively remake the world in its own image: What if the next hegemon, after Britain and the United States, is not a nation-state at all but the deep and misrecognized structures of capitalism itself? To phrase the problem politically, given the cosmopolitan character of global flows of finance capital, on what terms is it possible to have governance without state government? How will the modern state, designed to deal with the conjuncture of production-centered capitalism and the nation, have to reinvent itself to be functionally adequate to a highly transversal circulatory capitalism? What happens, Paul Virilio (1995) wants to know pointedly and pessimistically, when the circulatory forces now in motion instigate a form of corruption that exists beyond the purview of politics as we know it and eludes all democratic oversight, thus exposing us to, setting the stage for, a yet-to-be-known and unprecedented fatal calamity, the planetary "circulation of the generalized accident" (90)?

2 Derivatives, Risk, and Speculative Capital

It now seems well established that though derivatives are complex and virtual, and circulate almost exclusively in the cloistered world of investment banks, hedge funds, transnational corporations, and specialized global trading firms, it is impossible to grasp the character and influence of global flows of capital without a knowledge of how they operate within a culture of financial circulation. Derivatives have come to the foreground because they are the chosen instruments of a speculative and opportunistic capital that circulates globally, with worldwide implications, but is controlled by a rather small coterie of socially interconnected, mutually aware Euroamerican agents and institutions. The heart of globalization—or, better perhaps, "glocalization," which captures the simultaneously large and intimate quality of its processes—is the ways in which the financial community organizes the money markets to pump capital through the global circulatory system.

On the surface, derivatives seem to be extensions of well-known financial vehicles, though at a deeper level they turn out to be considerably more complex than is generally acknowledged by conventional economic accounts. A derivative is a species of transactable contract in which (1) there is no